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THE GHANAIAN ECONOMIC RECOVERY

by

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December 2013

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THE GHANAIAN ECONOMIC RECOVERY

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ABSTRACT

From 1961 to the present, Ghana's gross domestic product (GDP) change deviated significantly (more than 5.8 percent) from that of the region eight times; of these eight deviations, four were positive, outperforming the region, and four were negative, underperforming the region. This study utilizes process tracing in order to test whether economic policies—protectionist and liberal—had any impact on those deviations. This study shows that every negative deviation year was preceded by protectionist policies, and, with one exception (explained by currency devaluation), every positive deviation year was preceded by economic liberalization policies. This relationship suggests that the nature of economic policies (liberal versus protectionist) do not necessarily cause large, acute GDP movement, but they may be prerequisites for significant GDP movement in any given year.

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LIST OF ACRONYMS AND ABBREVIATIONS

AFRC	Armed Forces Revolutionary Council
BRIC	Brazil, Russia, India, China
BRICS	Brazil, Russia, India, China, South Africa
CPP	Convention People's Party
ERP	Economic Recovery Program
FINSAP	Financial Sector Adjustment Program
FNSSP	Financial Sector Strategic Plan
GDP	gross domestic product
GIP	Ghana industrial policy
GSGDA	Ghana Shared Growth and Development Agenda
IMF	International Monetary Fund
NDC	National Democratic Congress
NLC	National Liberation Council
NPP	New Patriotic Party
NRC	National Redemption Council
PNDC	Provisional National Defense Council
PNP	Peoples' National Party
PP	Progress Party
PPP	Purchasing Power Parity
PSDS	Private Sector Development Strategy
SAP	Structural Adjustment Program
SMC	Supreme Military Council
SSA	Sub-Saharan Africa

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I. INTRODUCTION

In 1966, Ghana's GDP¹ growth rate was -4.26 percent. This was the worst growth rate in all of West Africa and the fifth worst² in the world. Over the course of the following decade, Ghana's economy collapsed, and at one point (1975) its GDP growth rate dropped to a mind-boggling -12.4 percent. Yet, somehow, over the subsequent four decades, Ghana managed to change course, recently achieving some impressive economic numbers. In 2011, for example, the country enjoyed a GDP growth rate—when measured in constant prices in the national currency—of 15.01 percent, making it the third fastest growing economy in the world. And when measured in current prices, the GDP growth rate for Ghana for 2011 was 20.1 percent, making it the fastest growing economy in the world.

Yes, much of the growth for that year was due to oil revenues from the Jubilee oil field, which began pumping oil in December 2010. But oil alone does not explain Ghana's recent impressive performance. In fact, if oil revenues are excluded from the calculation, Ghana's GDP was still 7.5 percent for 2011.³ So even if oil revenue is discounted, Ghana still outperformed 70 percent of the rest of the world's economies in 2011. And 2012's numbers look promising as well. The 2012 estimate from the World Bank anticipates a GDP of 7.9 percent. Even this “downturn” from the stratospheric numbers of 2011 places Ghana as the nineteenth fastest growing economy in the world.

2011 and 2012 are of course just a snapshot, so consider this broader perspective: from 1984–2010, Ghana's average growth rate was 5.2 percent, while Sub-Saharan

¹ Unless otherwise noted, all GDP data in this paper comes from World Bank and reflects constant prices in the national currency. The World Bank, “GDP Growth,” The World Bank, accessed August 9, 2013, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>.

² Only Syria, Zambia, Myanmar, and Algeria had slower growth rates in 1966.

³ Ferdinand Bakoup, *Republic of Ghana Country Strategy Paper* (Accra, Ghana: African Development Bank, 2012).

Africa grew at a 3.2 percent rate.⁴ And, perhaps even most telling, consider the World Bank's bestowment of "middle income" status to Ghana in November 2010.⁵

This spectacular economic turnaround begs the question: Why did the economy improve so dramatically? One of the most common answers to this question is economic liberalization. Specifically, this explanation states that Structural Adjustment Programs⁶ instituted by the IMF and World Bank, combined with currency devaluation and smaller government, are responsible for Ghana's recent economic prosperity.

The Ghanaian government experimented with a number of different economic policies—mostly socialist policies, with a few notable economic liberalization policies—during its first 25 years of existence, but it never really committed to liberal economic policies until 1983. And over the course of the following years, no African country stuck to those policies more closely than Ghana.⁷ So Ghana makes a good case study to evaluate the impact of economic liberalization.

Much has been written on the topic—all of which will be summarized in the literature review—but the debate over whether reforms worked continues. The intent of this study is to test the economic liberalization explanation using a unique methodology.

To this end, this study will focus on years in which Ghana's GDP growth deviated significantly from that of the region.⁸ There are 51 years of available economic data from the World Bank (1961 to 2011). During that time, Ghana's GDP growth rate deviated significantly from the regional growth rate eight times: 1966, 1975, 1976, 1978, 1979, 1981, 1984, and 2011. Of those deviations, four were "positive" for Ghana: 1978, 1981,

⁴ 1984 is generally considered the beginning of Ghana's economic turnaround, and 2010 is a useful end-date because oil played a minimal role in Ghana's economy that year.

⁵ World Bank Group, "Ghana," World Bank Group, accessed March 7, 2013, <http://www.worldbank.org/en/country/ghana>.

⁶ Structural adjustment programs were designed to restore macroeconomic balance, establish realistic exchange rates, remove quantitative controls, and reduce taxes on agriculture. See Ho-Won Jeong, "Ghana: Lurching Toward Economic Rationality," *World Affairs* 159, no. 2 (October, 1996): 64.

⁷ Ho-Won Jeong, "Liberal Economic Reform in Ghana: A Contested Political Agenda," *Africa Today* 42, no. 4 (December 1995): 82.

⁸ For example, in 1978, Ghana's growth rate was 8.5 percent; the regional growth rate was 1.2 percent. So the deviation, the difference between the two, is 7.3 percent, a number that far exceeds most years. Therefore, for the purposes of this study, 1978 is considered a GDP deviation period.

1984, and 2011. That is, Ghana's economy improved dramatically relative to economies in the rest of the region. The other four years were "negative" deviations as Ghana's GDP growth rate declined relative to the region. For this study, a "significant" deviation is one that meets or exceeds 5.8 percent.

The 5.8 percent threshold was selected because the deviation in 1984 was 5.8 percent. This is a good starting point because 1984 was the first full year after the implementation of the most dramatic economic liberalization policies ever seen in Ghana. The years in which the deviation exceeded this threshold are significant and need to be examined. The years in which the threshold did not exceed 5.8 percent are important of course, but less so, and cannot be examined due to the limited scope of this study.

GDP % Change										
	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
SSA	2.11	5.72	6.21	5.90	6.47	2.49	1.72	3.57	7.29	8.23
Ghana	3.43	4.11	4.41	2.21	1.37	-4.26	3.08	0.37	6.01	9.72
	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
SSA	6.46	2.61	4.17	7.43	1.02	4.84	1.88	0.89	3.88	4.05
Ghana	5.22	-2.49	2.88	6.85	-12.43	-3.53	2.27	8.48	-2.51	0.47
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
SSA	2.00	0.58	-1.21	2.32	1.49	1.93	2.20	4.55	3.31	1.29
Ghana	10.56	-4.69	-4.71	8.12	5.27	3.75	5.30	8.49	4.30	2.48
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
SSA	0.86	-0.93	0.38	1.84	3.74	4.98	3.69	2.34	2.43	3.70
Ghana	4.98	3.47	4.36	3.28	4.02	4.60	4.20	4.69	4.43	3.74
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
SSA	3.67	3.51	4.39	6.44	5.79	6.12	6.91	5.04	1.97	4.96
Ghana	4.18	4.55	5.25	5.58	5.87	6.43	6.46	8.43	3.99	8.01
	2011	2012								
SSA	4.51	4.23								
Ghana	15.01	7.91								

Current Prices
National Currency
Source: World Bank

Table 1. GDP Percent Change from 1961 to 2012⁹

⁹ The World Bank, "GDP Growth," The World Bank, accessed August 9, 2013, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>.

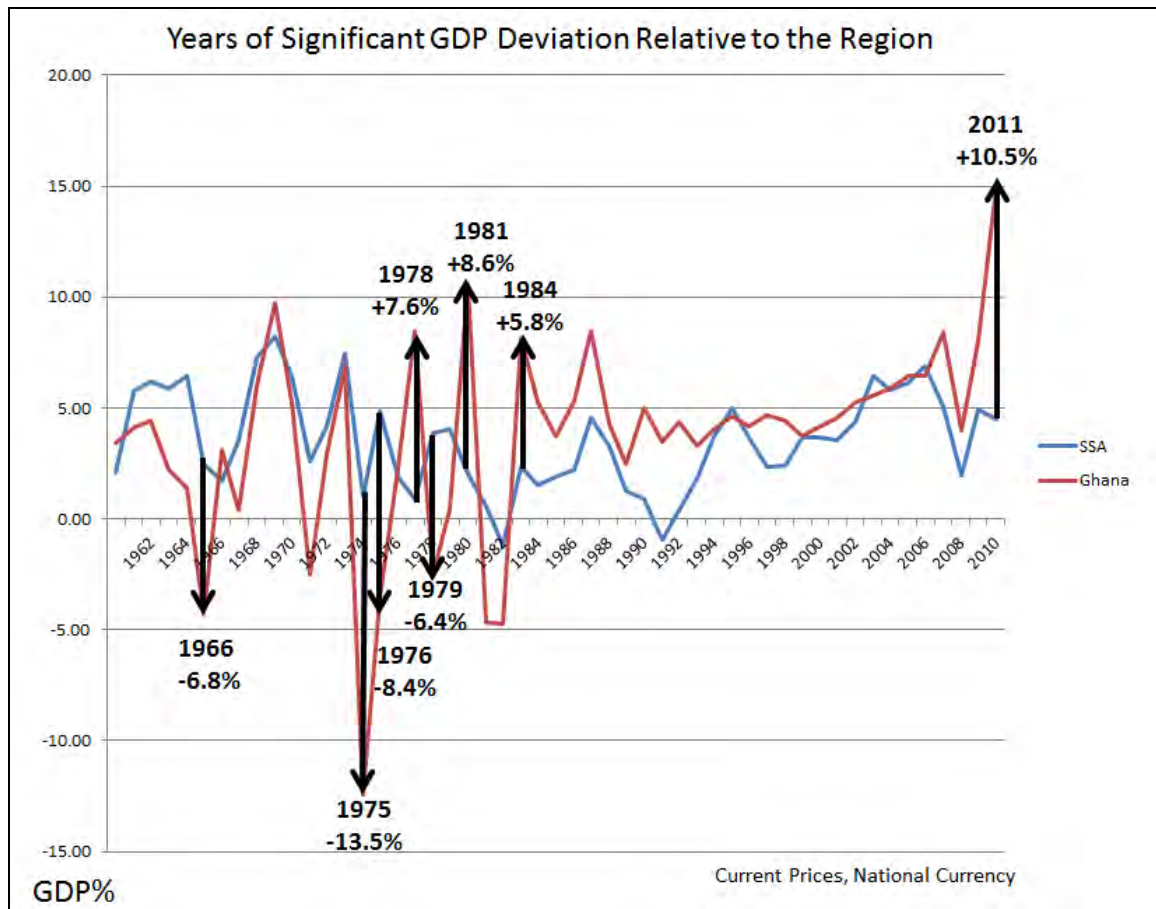


Figure 1. Years of Significant GDP Growth Deviation Relative to the Region¹⁰

These eight deviations are important because they highlight years when causal factors influenced economic conditions in Ghana, but not in the rest of the region. On the other hand, when Ghana's GDP growth approximated that of the region—which is demonstrated when the numbers show little deviation—then universal regional factors are assumed to be responsible. When this occurs, then Ghana-specific causal factors cannot be isolated. For example, consider 2008. According to Figure 1, Ghana's GDP and Sub-Saharan Africa's GDP both experienced a sharp decline over the previous year; this was almost certainly due to the worldwide economic recession. Universal regional factors like the worldwide recession of 2008 are important, but they are not helpful in determining what is unique about Ghana. Rather, the more important factors for this present study are

¹⁰ Ibid.

the periods in which large deviations occurred. Ghana-specific factors were present during those deviation periods, and they caused Ghana's economy to perform differently than the economies in the rest of the region. This study closely evaluates each of the deviation years in order to determine whether liberal economic reforms were responsible for the large deviations. The reversal of liberal economic reforms and the implementation of protectionist policies are also evaluated for their impact.

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II. LITERATURE REVIEW AND METHODOLOGY

A. LITERATURE REVIEW

The IMF and World Bank implemented the Economic Recovery Program (ERP) for Ghana from 1983 to 1986. The intent of this market-oriented program was to strengthen Ghana's weak economy. In 1986, the Structural Adjustment Program (SAP) was instituted for Ghana in order to complement the ERP.¹¹ Other economic liberalization policies were implemented prior to 1983, but these two programs—the ERP and the SAP—make up the core of economic liberalization efforts in Ghana, and for this reason, the literature focuses on these particular programs.

There is quite a debate on the effectiveness of this economic liberalization. Some of the literature covers Ghana, specifically, and some of it covers the region. In both cases, economic liberalization has its proponents as well as its critics. The purpose of the following review is to briefly cover the different positions in the scholarly community.

One of the most widely reviewed arguments in support of economic liberalization in Africa is a report from the World Bank entitled, *Adjustment in Africa: Reforms, Results, and the Road Ahead*.¹² This report is of course an endorsement of structural adjustment in Africa. To support this position, the study cites the economic improvement of the six nations that most closely followed the Bank's policy prescriptions from 1981–1991—Ghana, Tanzania, Gambia, Burkina Faso, Nigeria, and Zimbabwe. According to the report, these six countries experienced a median increase of nearly two percentage points in their GDP growth rates from 1981–1991.¹³ The clear implication is that the extent to which reforms are implemented has a direct impact on the performance of the economy in any given state. And notable for this present study is the conclusion that structural adjustment worked in Ghana.

¹¹ Augustin Kwasi Fosu, *Emerging Africa: The Case of Ghana* (Paris: The Organisation for Economic Co-operation and Development, 2000), 3.

¹² The World Bank, *Adjustment in Africa: Reforms, Results, and the Road Ahead* (Washington DC: The World Bank, 1994) 1.

¹³Ibid.

A number of scholars—including Sepehri (1994), Ponte (1995), and Schatz (1994)—have taken issue with the methodology of the World Bank report.¹⁴ Nevertheless, the report stands as an important work in the literature (if for no other reason than the debate it generated).

There are other important contributions as well. Fosu (2000) makes the case that Ghana's economy responded positively to the ERP and the SAP.¹⁵ He cites a number of reasons for his position. For example, he shows that exports and imports both responded positively to Ghana's liberalization program. Additionally, he shows that three important indicators—growths in GDP, per capita GDP, and investment—are all larger during periods of economic liberalization than they are for protectionist periods.¹⁶

Abdulai and Huffman (2000) found that structural adjustment policies in Ghana have had a positive effect on rice farming in Ghana.¹⁷ Boafo-Arthur (1999) contends that, for Ghana, SAP is an “indispensable economic tool.”¹⁸ Callaghy (1988) writes that Ghana has “instituted the most successful and sustained neo-classical reform effort on the continent.”¹⁹ Sowa (1996) writes that adjustment policies in Ghana, after the first decade

¹⁴ Ardeshir Sepehri, “Back to the Future? A Critical Review of ‘Adjustment in Africa: Reforms, Results and the Road Ahead,’” *Review of African Political Economy* 21, no. 62 (December, 1994): 559–568; Stefano Ponte, “The World Bank and ‘Adjustment in Africa,’” *Review of African Political Economy* 22, no. 66 (December, 1995): 539–558; Sayre P. Schatz, “Structural Adjustment in Africa: A Failing Grade so Far,” *The Journal of Modern African Studies* 32, no. 4 (December, 1994): 679–692.

¹⁵ Augustin Kwasi Fosu, *Emerging Africa: The Case of Ghana* (Paris: The Organisation for Economic Co-operation and Development, 2000), 3.

¹⁶ *Ibid.*, 24.

¹⁷ Awudu Abdulai and Wallace Huffman, “Structural Adjustment and Economic Efficiency of Rice Farmers in Northern Ghana,” *Economic Development and Cultural Change* 48, no. 3 (April, 2000): 503–520.

¹⁸ Kwame Boafo-Arthur, “Ghana: Structural Adjustment, Democratization, and the Politics of Continuity,” *African Studies Review* 42, no. 2 (September 1999): 66.

¹⁹ Thomas M. Callaghy, “Debt and Structural Adjustment in Africa: Realities and Possibilities,” *Issue: A Journal of Opinion* 16, no. 2 (1988): 17.

of implementation, can be considered a “considerable initial success.”²⁰ Toye (1991) concludes that Ghana’s Structural Adjustment Program was the most successful in Africa.²¹

Others disagree about the effectiveness of adjustment in Ghana. For example, Brydon (1999) argues that the policies of the IMF and the World Bank in Ghana are not working.²² Others, speaking more broadly about the region as a whole, are quite critical as well. Ponte (1996) writes a scathing assessment of adjustment in Africa.²³ Carmody (1998) judges adjustment a total failure because it has led to “the autonomous development of the trade and financial sectors, to the detriment of production.”²⁴ Loxley (1990 and 1995) is very critical of structural adjustment in Africa;²⁵ he concludes that Ghana’s economic recovery in the 1980s was going to happen even if adjustment had not occurred.²⁶ Schatz (1994) suggests that the World Bank’s policies may have actually hindered economic growth in Africa.²⁷ And Osabu-Kle (2000) even goes so far as to claim that adjustment in Africa is not even really about economics. Rather, he argues, it is about the struggle for power between the Bretton Woods institutions and African leaders.²⁸

²⁰ Nii K. Sowa, *Adjustment in Africa: Lessons from Ghana* (London: Overseas Development Institute, 1996); However, Sowa does acknowledge that the programs were—at the time of his writing—beginning to show signs of faltering.

²¹ John Toye, “Ghana,” in *Aid and Power: The World Bank and Policy-Based Lending in the 1980s* ed. P. Mosley, J. Harrigan, and J. Toye (New York: Routledge, 1991): 155.

²² Lynne Brydon, “‘With a Little Bit of Luck...’ Coping with Adjustment in Urban Ghana, 1975–90,” *Africa: Journal of the International African Institute* 69, no. 3 (1999): 367.

²³ Stefano Ponte, “The World Bank and ‘Adjustment in Africa,’” *Review of African Political Economy* 22, no. 66 (December 1995): 539–558.

²⁴ Pádraig Carmody, “Constructing Alternatives to Structural Adjustment in Africa,” *Review of African Political Economy* 25, no. 75 (March 1998): 25.

²⁵ John Loxley, “A Review of Adjustment in Africa: Reforms, Results, and the Road Ahead,” *Canadian Journal of African Studies / Revue Canadienne Des Études Africaines* 29, no. 2 (1995): 266–271.

²⁶ John Loxley, “Structural Adjustment in Africa: Reflections on Ghana and Zambia,” *Review of African Political Economy* no. 47 (Spring 1990): 8–27.

²⁷ Sayre P. Schatz, “Structural Adjustment in Africa: A Failing Grade so Far,” *The Journal of Modern African Studies* 32, no. 4 (December 1994): 691.

²⁸ Daniel Tetteh Osabu-Kle, “The Politics of One-Sided Adjustment in Africa,” *Journal of Black Studies* 30, no. 4 (March 2000): 515–533.

Others are more measured in their judgments. Sepehri (1994) contends that market-friendly adjustment in Africa has not worked, but reform based on institution-building and technical capacity has worked.²⁹ Sparks (1995) writes that SAPs have, at a minimum, arrested the region's dramatic economic decline.³⁰ Hilson (2004) argues that ERP and SAP have made the investment climate in Ghana "too attractive," and as a result, foreign multinationals are profiting far more than Ghana's GDP is improving.³¹ Amponsah (2000) writes that SAP reforms have been somewhat successful, but private businesses have not responded to these reforms because they are concerned about the volatility of the institutional environment.³² Jeong (1996) also gives a mixed review of economic reforms in Ghana. He contends that the ERP successfully moderated high inflation and reduced government deficits, but institutional reforms have not been successful.³³

Kraus (1991) concludes that SAP policies are responsible for the economic recovery that began in 1984, but he warns of the major weaknesses of adjustment, namely, the indifference of the IMF and the World Bank to the living standards of Ghanaians.³⁴ Parfitt (1995) contends that improvements in Ghana's economy have resulted from economic liberalization, but he warns that Ghana remains vulnerable because it has not diversified from its traditional exports.³⁵

²⁹ Ardeshir Sepehri, "Back to the Future? A Critical Review of 'Adjustment in Africa: Reforms, Results and the Road Ahead,'" *Review of African Political Economy* 21, no. 62 (December 1994): 559–568.

³⁰ Donald L. Sparks, "Review: *Adjustment in Africa: Reforms, Results and the Road Ahead* by World Bank," *African Studies Review* 38, no. 3 (December 1995): 114.

³¹ Gavin M. Hilson, "Structural Adjustment in Ghana: Assessing the Impacts of Mining-Sector Reform," *Africa Today* 51, no. 2 (2004): 72.

³² Nicholas Amponsah, "Ghana's Mixed Structural Adjustment Results: Explaining the Poor Private Sector Response," *Africa Today* 47, no. 2 (2000): 9–32.

³³ Ho-Won Jeong, "Ghana: Lurching Toward Economic Rationality," *World Affairs* 159, no. 2 (October 1996): 65.

³⁴ Jon Kraus, "The Struggle Over Structural Adjustment in Ghana," *Africa Today* 38, no. 4 (4th Qtr., 1991): 19–37.

³⁵ Trevor W. Parfitt, "Adjustment for Stabilisation Or Growth? Ghana and the Gambia," *Review of African Political Economy* 22, no. 63 (March, 1995): 55–72.

So the debate rages on. The success of economic liberalization in Ghana remains a contentious topic. Part of the problem is that none of the aforementioned studies controlled for universal regional factors. Fosu, one of the proponents of economic liberalization in Ghana, even acknowledges this weakness in his own research.³⁶

For example, the oil supply shocks of the 1970s were of course partly responsible for the economic decline of many SSA nations. This makes it difficult to parse the real reason for Ghana's economic decline during that time period. Ghana implemented some decidedly protectionist policies during the 1970s *while* dealing with the worldwide oil shortage. Most agree that both factors impacted Ghana's economy negatively, but to what extent? This study controls for universal regional factors—such as the oil supply shock of the 1970s—in an effort to clearly identify Ghana-specific variables that have impacted the economy.

B. METHODOLOGY

The scope of this study is 1961 to the present (because these are the years for which data is available from the World Bank), but this study focuses on the years 1966, 1975, 1976, 1978, 1979, 1981, 1984, and 2011, because these are the years that Ghana's GDP deviated significantly from that of the region indicating that Ghana-specific factors were influencing the economy. This is how universal regional factors are controlled.

The methodology for this study utilizes process-tracing in order to test the economic liberalization theory. Process-tracing is useful for evaluating complex systems—like a state's economy—because it seeks to differentiate causal mechanisms from correlational relationships.³⁷ Process-tracing can be used to “identify the intervening causal process—the causal chain and causal mechanism—between an independent variable (or variables) and the outcome of the dependent variable.”³⁸ This

³⁶ Augustin Kwasi Fosu, *Emerging Africa: The Case of Ghana* (Paris: The Organisation for Economic Co-operation and Development, 2000), 24

³⁷ Alexander George and Andrew Bennett. *Case Studies and Theory Development in the Social Sciences*. London: MIT Press, 2005.

³⁸ *Ibid.*, 206–207.

study attempts to do just that, to identify the intervening causal process between independent variables—economic policies—and the outcome of the dependent variable—GDP growth.

Process-tracing is superior to alternative methodologies for this particular research question because the research question being addressed requires the deliberate, detailed analysis of individual economic policies and their impact on the GDP growth of the country. And these policies—as independent variables—must be differentiated from other independent variables such as geopolitical events or other non-policy variables; additionally, the nature of their relationship to the outcome must be established as causal or correlational.

Hence, this study examines all pertinent economic policies—protectionist and liberal—implemented in Ghana prior to each of the eight “deviation periods” previously identified. The intent is to answer the following questions. What policies were implemented prior to the eight deviation periods? Were they protectionist policies or liberal policies? Did protectionist policies precede declining deviations? Did liberal policies precede improving deviations?

Some policies of course had an immediate, measurable impact on the economy. Other policies are more difficult to gauge, especially if an immediate impact is not clear and a causal relationship cannot be established. In any case, all policies are analyzed, their impact evaluated, and a determination is made as to whether they impacted the economy in a meaningful way.

Non-policy geopolitical events that potentially impacted the economy are addressed as well. For example, when a military coup occurred prior to a deviation period, then its impact is also accounted for.

III. ANALYSIS

The next eight sub-sections of this chapter correspond to each of the eight “years of significant deviation”³⁹ previously identified for Ghana: 1966, 1975, 1976, 1978, 1979, 1981, 1984, and 2011. The intent of analyzing each year is to confirm what caused the GDP deviation for that year. Was the deviation caused by economic liberalization of some kind, or was it simply caused by geopolitical events such as military coups, for example? Each of the following sections gives consideration to the geopolitical events that could have impacted the country’s economic performance in the given year. Economic policies—and whether they had a liberalizing effect or not—are also considered. And since the impact of geopolitical events and economic policies are often felt for a number of years, consideration is also given to the few years prior to the year being analyzed.

A. 1966

In 1966, Ghana’s GDP percent change was -4.3 percent, 6.8 percent lower than the Sub-Saharan Africa average.⁴⁰ What caused this deviation?

The British government recognized Ghana’s independence on March 6, 1957, and the country became a republic on July 1, 1960. Kwame Nkrumah of the Convention People’s Party became president later that year. Initially, Nkrumah implemented a handful of stabilization policies, but these failed miserably,⁴¹ and the government quickly established itself as socialist, inward-looking, and protectionist.

³⁹ A year of “significant deviation” is one in which Ghana’s GDP growth rate deviated significantly—more than 5.8 percent—from the regional (SSA) growth rate.

⁴⁰ GDP percent change is reflected in constant prices in the national currency. The World Bank, “GDP Growth,” The World Bank, accessed August 9, 2013, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>.

⁴¹ Kwame Boafo-Arthur, “Ghana: Structural Adjustment, Democratization, and the Politics of Continuity,” *African Studies Review* 42, no. 2 (September 1999): 46.

During the Nkrumah regime, the government's constituents wanted a bigger government, rapid industrialization, and economic self-sufficiency.⁴² In order to meet these demands, Nkrumah pursued policies of high public spending, and he oversaw the establishment of state owned enterprises. He also launched a seven-year development plan in 1963–1964, which increased government spending in support of import substitution policies.⁴³

The government had a problem with balance of payments, and it wanted to protect domestic industry. The classic policy options in this case are trade restrictions and currency devaluation. The government chose trade restrictions, believing them to be more favorable than currency devaluation. In addition, foreign exchange reserves were shrinking, so the government began to borrow externally. On top of that, price controls were implemented, which led to shortages, inflation, and corruption.⁴⁴ And the nationalization of large, commercial firms, by most accounts, only served to undermine the economy.⁴⁵ To make matters worse, Nkrumah's policies regarding outside investment were schizophrenic at best, sometimes encouraging them, sometimes discouraging them. This led to a negative impact on the economy and a dramatic drop in currency value.⁴⁶

Prior to Nkrumah's tenure as president government projects were largely funded by the export of cocoa, but the decline of cocoa prices in the early 1960s led to a significant imbalance of payments as the government continued to fund rapid industrialization. The government borrowed heavily from the international banking system, engaged in deficit financing, and raised taxes in order to continue with its public projects. Public discontent followed, and Nkrumah soon found himself out of a job.⁴⁷

⁴² Ho-Won Jeong, "Economic Reform and Democratic Transition in Ghana," *World Affairs* 160, no. 4 (April 1998), 219.

⁴³ Augustin Kwasi Fosu, *Emerging Africa: The Case of Ghana* (Paris: The Organisation for Economic Co-operation and Development, 2000).

⁴⁴ *Ibid.*, 20–22.

⁴⁵ David E. Apter, "Ghana's Independence: Triumph and Paradox," *Transition*, no. 98 (2008), 6–22.

⁴⁶ *Ibid.*

⁴⁷ Ho-Won Jeong, "Economic Reform and Democratic Transition in Ghana," *World Affairs* 160, no. 4 (April, 1998), 219.

After six years of increasingly authoritarian policies, Nkrumah was deposed. In February 1966, army officers Colonel E. K. Kotoka, Major A. A. Afrifa, Lieutenant General (retired) J. A. Ankra, and Police Inspector General J. W. K. Harlley led a military coup in order to wrest power from Nkrumah.⁴⁸

In sum, Nkrumah pursued some overwhelmingly protectionist—as well as socialist—policies, and the economy suffered for it. To be fair, it is not clear whether the poor economic performance in 1966 was due to the protectionist economic policies or the coup or both. But an important correlation has been established.

This concludes the analysis of 1966, but the few years following 1966 should be explored briefly before proceeding to the next “deviation year.” The reason is because the National Liberation Council implemented a significant reversal of economic policies soon after the removal of Nkrumah, and these policies should be examined since they represent such a dramatic shift in economic philosophy.

Beginning in July 1967, Afrifa and Kotoka—and the NLC—began working to improve the economy. The IMF/World Bank put a stabilization package on the table, and Ghana’s military government had little choice but to accept it. The purpose of the plan was to bolster the economy and control inflation.⁴⁹

The government implemented a policy of austerity and market liberalization. To this end, the currency was devalued by 43 percent and import duties were lowered on many important commodities. Additionally, controls on state production were loosened. Then, when Busia and his Progress Party came to power in 1969, the liberal policies implemented by Afrifa and Kotoka were continued.⁵⁰

Notably, this period of liberalization led to a number of years of positive GDP numbers. In 1969, the GDP improved six percent. In 1970, the improvement was 9.7 percent. And in 1971, the improvement was 5.2 percent. These years were not closely

⁴⁸ Frederic P. Miller and Agnes F. Vandome, “History of Ghana (1966–1979),” in *History of Ghana*, ed. John McBrewster (Stafford, United Kingdom: Alphascript Publishing, 2009), 19.

⁴⁹ Augustin Kwasi Fosu, *Emerging Africa: The Case of Ghana* (Paris: The Organisation for Economic Co-operation and Development, 2000), 22.

⁵⁰ Ibid.

examined in this study because they are not “deviation years.” That is to say, Ghana’s economic performance for those years was roughly in line with that of the region. So it is impossible to parse Ghana-specific causal factors and—their effect on GDP change—from regional factors.

Even so, it is important to highlight this period of economic liberalization if for no other reason than to acknowledge that it occurred and to associate it with an improving economy. Despite the macroeconomic improvements in the country, popular support waned for Busia’s economic stabilization measures,⁵¹ and ultimately Busia lost power because of this.⁵²

B. 1975

This section of the study focuses on 1975 since that year is a “deviation year,” but it is important to note the performance of Ghana’s economy for 1972, 1973, and 1974. These are not “deviation years” as defined in this study’s methodology, so they will not be evaluated closely, nor can they be used as evidence to support the thesis of this study. Still, important correlations can be made, namely that the reversal of economic liberalization policies was followed by years of poor economic performance in Ghana.

On January 13, 1972, Lieutenant Colonel Ignatius Kutu Acheampong, commander of Ghana’s First Army Brigade, led a military coup, seizing control of Ghana from Prime Minister Busia and the Progress Party. Lieutenant Colonel Acheampong—soon promoted to General—brought with himself to power the National Redemption Council (NRC).⁵³

Shortly after Acheampong seized power, he reversed Busia’s liberal economic policies. Then, Ghana underperformed the region for three years in a row. However, the difference in performance when compared to the region is not enough to definitively

⁵¹ Kwame Boafo-Arthur, “Ghana: Structural Adjustment, Democratization, and the Politics of Continuity,” *African Studies Review* 42, no. 2 (September 1999), 46.

⁵² R. L. Libby, “External Cooptation of a Less Developed Country’s Policy-Making: The Case of Ghana,” *World Politics* 1, no. 10 (1976), 67–89.

⁵³ Augustin Kwasi Fosu, *Emerging Africa: The Case of Ghana* (Paris: The Organisation for Economic Co-operation and Development, 2000).

claim a causal relationship between the policy reversal and the economic performance. Indeed, the impact of the coup itself must also be considered, but again, a direct relationship cannot be established, only a correlational one. The fact is, Acheampong reversed a number of economic liberalization policies, and then the economy underperformed the region for a number of years.

1975, on the other hand, *is* a significant “deviation year.” Ghana’s GDP percent change that year was -12.4 percent, 13.5 percent lower than the Sub-Saharan Africa average.⁵⁴ This is a huge deviation from the regional average. Indeed, this is the largest deviation in the history of the country. So again, the question is, why?

Essentially, 1975 was a continuation of the economic policies of the previous three years since Busia’s removal. Fosu (2000) sums it up nicely, writing,

Various experiments with controls were tried during this period. These included: variable purchase taxes, selective import duties, ad-valorem license levies, differential credit restrictions for exports and imports, and outright prohibition of the importation of all textiles and textile goods in 1975.⁵⁵

These controls led to a number of problems, including hoarding, shortages, inflationary pressures, and inefficiencies.⁵⁶ Then, world oil prices rose sharply, quadrupling between October 1973 and January 1974.⁵⁷

Oil prices certainly explain some of Ghana’s poor economic performance in 1975, but they cannot explain why Ghana underperformed the region so dramatically. This is because the price of oil was a universal causal factor impacting the entire world. Indeed

⁵⁴ GDP percent change is reflected in constant prices in the national currency. The World Bank, “GDP Growth,” The World Bank, accessed August 9, 2013, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>.

⁵⁵ Augustin Kwasi Fosu, *Emerging Africa: The Case of Ghana* (Paris: The Organisation for Economic Co-operation and Development, 2000), 22.

⁵⁶ Ibid.

⁵⁷ “1973–74 Oil Crisis—Timeline—Slaying the Dragon of Debt,” University of California, Berkeley, accessed May 15, 2013, <http://bancroft.berkeley.edu/ROHO/projects/debt/oilcrisis.html>.

the average GDP for all countries dropped from 6.6 percent in 1973 to .9 percent in 1975, and Sub-Saharan Africa saw a GDP drop from 4.2 percent to 1.0 percent over the same time period.⁵⁸

One could argue that Ghana was particularly susceptible to oil prices. But if this is true, there must be a reason why it was susceptible. Perhaps it was especially susceptible *because* of the protectionist policies that were in place. Indeed, the evidence suggests this is the case. Ghana's economic policies had led to a situation where it lacked the foreign exchange and credit to buy fuel. As a result, transportation suffered, as did industry. On top of that, poor price management and urbanization led to a decline in food production.⁵⁹ In the end, Ghana experienced its single worst GDP change in the nation's history. Acheampong's protectionist regime was the root cause. His protectionist policies and his reversal of Busia's devaluation created an economic system that was especially vulnerable to the oil shocks of the mid-1970s.⁶⁰

C. 1976

In October 1975, the era of the Supreme Military Council (SMC) began (1975–1978). The economic policies of the SMC were, generally speaking, protectionist and socialist in nature.⁶¹ As a result, Ghana's GDP percent change for that 1976 was -3.5 percent, 8.4 percent lower than the Sub-Saharan Africa average.⁶²

The SMC was composed of a few senior military officers who came together in order to replace the existing ruling council. The purpose of the SMC was to reinforce and expand military influence over the government. The philosophy of the SMC was

⁵⁸ GDP percent change is reflected in constant prices in the national currency. The World Bank, "GDP Growth," The World Bank, accessed August 9, 2013, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>.

⁵⁹ Frederic P. Miller and Agnes F. Vandome, "History of Ghana (1966–1979)," in *History of Ghana*, ed. John McBrewster (Stafford, United Kingdom: Alphascript Publishing, 2009), 19.

⁶⁰ Augustin Kwasi Fosu, *Emerging Africa: The Case of Ghana* (Paris: The Organisation for Economic Co-operation and Development, 2000).

⁶¹ Ibid.

⁶² GDP percent change is reflected in constant prices in the national currency. The World Bank, "GDP Growth," The World Bank, accessed August 9, 2013, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>.

predicated on the belief that the country's problems were simply the result of poor organization. Members of the SMC believed they could address chronic problems by employing military organization and thinking.⁶³

Senior military officers took charge of the ministries and began to manage all major government affairs. Junior officers and sergeants assumed responsibility for local administration in every government department. This included parastatal organizations as well.⁶⁴

As soon as the SMC finished consolidating power, it implemented a number of socialist and protectionist economic policies, further reversing Busia's earlier efforts to liberalize the economy. These policies included—among other things—massive investment in agriculture. Other policies were implemented in order to reduce dependence on foreign exchange. The SMC believed that economic development could be accomplished through self-sufficiency, by relying heavily on domestic resources. This was accomplished in part by imposing protectionist policies such as heavy regulations on imports. The government also implemented a number of socialist programs that benefited rural communities and public employees.⁶⁵

Unfortunately, these programs proved to be extremely costly, and the country was not bringing in enough income from exports to cover the added costs. In the end, the national consumer price index rose dramatically. In fact, it went from 226.7 in 1972 to 1,729.2 in 1977. And the bulk of the price increases were on food.⁶⁶

⁶³ Frederic P. Miller and Agnes F. Vandome, "History of Ghana (1966–1979)," in *History of Ghana*, ed. John McBrewster (Stafford, United Kingdom: Alphascript Publishing, 2009), 18.

⁶⁴ Ibid.

⁶⁵ Ho-Won Jeong, "Economic Reform and Democratic Transition in Ghana," *World Affairs* 160, no. 4 (April 1998), 219.

⁶⁶ Ibid.

In the final analysis, 1976 was a terrible year, economically. Ghana underperformed the region by 8.4 percent. The SMC's protectionist and socialist economic policies were a total disaster.⁶⁷

D. 1978

Ghana's economic policies in 1978 were a continuation of the socialist and protectionist policies from the previous five years. With one exception, General Acheampong and the SMC did not make any significant changes to the existing policies. And something strange happened that year. Ghana's GDP percent change was 8.5 percent, 7.6 percent *higher* than the Sub-Saharan Africa average.⁶⁸ Ghana, under its socialist and protectionist regime, had underperformed the region for six of the seven previous years; now, suddenly, Ghana dramatically outperformed the region. So what accounts for this change? If Acheampong and the SMC were simply continuing with the same policies, then there must be another explanation.

Acheampong and the SMC did make one significant change. They devalued the cedi.⁶⁹ This had an immediate impact on the price of exports, making them attractive on the international market, which led to a significant increase in GDP for the year. Had this devaluation not occurred, the GDP would not have performed as well as it did.

In any event, this improvement in exports was not enough to solve Ghana's overall economic crisis. By July of 1978, the economy was still in shambles. Inflation was close to 300 percent. Basic subsistence commodities were in short supply. And cocoa production fell dramatically to half its 1964 peak. As a result, political pressure increased as constituents called for reform.

A number of groups organized demonstrations. Acheampong responded by outlawing many of these organizations. He also imprisoned around 300 of his

⁶⁷ GDP percent change is reflected in constant prices in the national currency. The World Bank, "GDP Growth," The World Bank, accessed August 9, 2013, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>.

⁶⁸ Ibid.

⁶⁹ Augustin Kwasi Fosu, *Emerging Africa: The Case of Ghana* (Paris: The Organisation for Economic Co-operation and Development, 2000), 22.

opponents.⁷⁰ In the end, Acheampong was unable to fix the economy, and there was no relief in sight, so the SMC acted, forcing Acheampong to resign and replacing him with Lieutenant General Frederick Akuffo who promised to hold elections and transition to a civilian government by July 1, 1979.⁷¹

E. 1979

In 1979, Ghana's GDP percent change was -2.5 percent, 6.4 percent lower than the Sub-Saharan Africa average.⁷² This deviation from the region is difficult to explain definitively. This is because there were a number of factors that must be considered, any one of which, or any combination of which, may have been responsible for Ghana's terrible economic performance that year.

Perhaps the most significant development in Ghana in 1979 was the fact that three different governments ran the country that year. General Akuffo's military government, which had been in power since July of 1978, was ousted on June 4, 1979 by Flight Lieutenant John J. Rawlings in a military coup. Then in September, Rawlings handed over power to the newly elected President, Dr. Hilla Limann.⁷³ This instability—three different governments—may have been responsible for some of Ghana's poor economic performance in 1979. It is impossible to say for certain.

Additionally, severe drought and bush fires ravaged the countryside in 1979 impacting agriculture and food production, which led to a decrease in agricultural exports.⁷⁴ This reduced productivity of course affected the GDP change for the year.

⁷⁰ Frederic P. Miller and Agnes F. Vandome, "History of Ghana (1966–1979)," in *History of Ghana*, ed. John McBrewster (Stafford, United Kingdom: Alphascript Publishing, 2009), 19.

⁷¹ Ibid.

⁷² GDP percent change is reflected in constant prices in the national currency. The World Bank, "GDP Growth," The World Bank, accessed August 9, 2013, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>.

⁷³ Heidi Frontani and Anna McCracken, "China's Development Initiatives in Ghana, 1961–2011," *Journal of Sustainable Development in Africa* 14, no. 8 (2012).

⁷⁴ Kwame Boafo-Arthur, "Ghana: Structural Adjustment, Democratization, and the Politics of Continuity," *African Studies Review* 42, no. 2 (September 1999), 48.

But there were other effects as well. The diminished agriculture sector created a situation in which Ghana could not benefit from rising cocoa prices. On top of that, cocoa farmers were receiving lower wages than their counterparts in Togo and Cote D'Ivoire, so a significant number of farmers began to smuggle their cocoa across the border.⁷⁵ This would affect exports, so it would of course have a negative impact on GDP as well.

On top of all that, economic policies were protectionist in the years leading up to 1979 and for most of 1979, itself. Akuffo's policies were inward-looking and protectionist. Rawlings implemented a few reforms, but for the most part, he tightened economic controls. And Limann—who would eventually pursue economic liberalization for the country—did very little during 1979.⁷⁶

So, to sum up the situation in Ghana in 1979, the country suffered extreme political volatility, severe agricultural challenges, and continued protectionist policies. For this reason, it is difficult to say what caused the country's terrible economic performance that year. Most would probably agree that all three factors were, to some extent or another, responsible.

F. 1981

In September 1979, Dr. Hilla Limann won the presidential election, and Rawlings handed over power. Limann and the People's National Party pursued economic liberalization over the course of the next two years,⁷⁷ and by 1981, Ghana's GDP percent change was 10.6 percent, 8.6 percent *higher* than the Sub-Saharan Africa average.⁷⁸

Limann was the president of Ghana until the end of 1981. During his few years in office, he made some notable steps toward economic liberalization; this was the first significant economic policy shift toward liberalization since Busia's policies in the early

⁷⁵ Frederic P. Miller and Agnes F. Vandome, "History of Ghana (1966–1979)," in *History of Ghana*, ed. John McBrewster (Stafford, United Kingdom: Alphascript Publishing, 2009), 19.

⁷⁶ Augustin Kwasi Fosu, *Emerging Africa: The Case of Ghana* (Paris: The Organisation for Economic Co-operation and Development, 2000).

⁷⁷ *Ibid.*

⁷⁸ GDP percent change is reflected in constant prices in the national currency. The World Bank, "GDP Growth," The World Bank, accessed August 9, 2013, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>.

1970s. Limann pursued monetary policies recommended by the International Monetary Fund (IMF). He also focused heavily on agricultural production in an effort to increase export earnings. Part of the agricultural focus included an increase in cocoa producer prices. In addition, he worked to reduce the budget deficit.

Unfortunately for Limann, cocoa exports declined and the budget deficit continued to grow. And economic liberalization proved to be too painful for the electorate, especially the educated, who were growing increasingly dissatisfied with the government. Eventually accusations of government corruption surfaced,⁷⁹ and Limann's narrow support base among the middle class became even smaller, creating an opportunity for the Rawlings military coup at the end of 1981.⁸⁰

To conclude, during 1980 and 1981, Limann introduced a number of significant reforms in order to liberalize the economy, and in 1981, Ghana saw a surge in GDP that far outperformed the region.

G. 1984

On December 31, 1981, Rawlings and the PNDC led military coup (Rawlings' second coup) in order to remove Limann and the PNP from power.⁸¹ Rawlings initially implemented a number of tightening controls, but in 1983, he shifted dramatically toward economic liberalization.⁸² And in 1984, Ghana's GDP percent change was 8.1 percent, 5.8 percent higher than the Sub-Saharan Africa average. Notably, Ghana achieved these startling GDP numbers in 1984 in spite of a number of very challenging socioeconomic pressures that one would normally expect to adversely affect GDP.⁸³

⁷⁹ Frederic P. Miller and Agnes F. Vandome, "History of Ghana (1966–1979)," in *History of Ghana*, ed. John McBrewster (Stafford, United Kingdom: Alphascript Publishing, 2009), 19.

⁸⁰ Ho-Won Jeong, "Economic Reform and Democratic Transition in Ghana," *World Affairs* 160, no. 4 (April 1998), 219.

⁸¹ Kwame Boafo-Arthur, "Ghana: Structural Adjustment, Democratization, and the Politics of Continuity," *African Studies Review* 42, no. 2 (September 1999), 48.

⁸² Augustin Kwasi Fosu, *Emerging Africa: The Case of Ghana* (Paris: The Organisation for Economic Co-operation and Development, 2000).

⁸³ Kwame Boafo-Arthur, "Ghana: Structural Adjustment, Democratization, and the Politics of Continuity," *African Studies Review* 42, no. 2 (September 1999), 48.

In an effort to consolidate support, Rawlings and the Provisional National Defense Council (PNDC) spent the first 18 months in power maintaining popular protectionist and socialist policies. The low income section of the populace enjoyed controlled rents, low transportation fares, and other inexpensive necessities as a part of these policies.⁸⁴

Unfortunately for Rawlings, these programs were expensive, and as a result, inflation spiked as did the government deficit.⁸⁵ In addition, a number of state-owned enterprises were not performing, so they were creating an additional burden on the government's coffers. In fact, the total amount of subsidies for these enterprises cost the government up to nine percent of its annual expenditure.⁸⁶

On top of all that—as the result of farmer exploitation and poor agricultural pricing policy—cocoa production continued to decline (from 403,000 tons in 1970 to 179,000 tons in 1983). And to make matters worse, Nigeria expelled 2,000 workers, most of whom returned to Ghana creating an additional burden on the government. These workers returned to a country that was suffering severe drought and bush fires, which affected agriculture and food production as well as hydroelectric power and industrial production.⁸⁷

The economic troubles of 1981 and 1982 capped off a decade of decline. From 1970 to 1982, income per capita fell by 30 percent; real wages fell by 80 percent; import volume fell by 66 percent; real export earnings fell by 50 percent; Ghana's export to GDP ratio dropped from 21 percent to four percent; the domestic savings rate fell from 12 to three percent; the investment rate fell from 14 percent of GDP to two percent; and the budget deficit rose from 0.4 to 14.6 percent of total government spending.⁸⁸ So, by any measure, the economy was not doing well. Indeed, this was an economic crisis.

⁸⁴ Ho-Won Jeong, "Economic Reform and Democratic Transition in Ghana," *World Affairs* 160, no. 4 (April 1998), 219–220.

⁸⁵ *Ibid.*, 219.

⁸⁶ Kwame Boafo-Arthur, "Ghana: Structural Adjustment, Democratization, and the Politics of Continuity," *African Studies Review* 42, no. 2 (September 1999), 47.

⁸⁷ *Ibid.*

⁸⁸ *Ibid.*, 48.

Rawlings and the PNDC had to find a solution to these problems. The solution they chose was the Economic Recovery Program (ERP), which launched in 1983 with the support of the IMF and the World Bank. The program was executed in two phases, ERP I and ERP II. Phase one was the stabilization phase and took place from 1983 to 1986. The intent of this phase was to arrest the decline of the economy. Phase two occurred from 1987 to 1989. This was the structural adjustment and development phase, which focused heavily on reforming social services and curbing subsidies.⁸⁹

ERP II is important to understand when analyzing the long term impact of structural reform in Ghana, but for purposes of this study, ERP I is much more relevant. ERP I began in 1983, and Ghana's GDP change significantly outperformed the region in 1984, so much of this section will focus on ERP I.

Economic liberalization is often difficult to implement because of the lack of public support. This was the case for Busia in the early 1970s, and it was the case for Limann in the early 1980s. But the situation was different for Rawlings in 1983. Indeed, the economy was *so* bad that many actually accepted the policies of ERP I.⁹⁰ And those who did not accept the policies were forced by the PNDC to temper their opposition.⁹¹

The first order of business for the PNDC was the budget deficit. The PNDC implemented a number of reforms in order to narrow the deficit. These reforms included the elimination of subsidies for basic necessities as well as reduced spending for education and welfare programs. This caused some tension among some groups—students, labor groups, etc.—but there were no widespread demonstrations or riots that threatened the government.⁹²

⁸⁹ Ibid., 48–49.

⁹⁰ Ho-Won Jeong, "Ghana: Lurching Toward Economic Rationality," *World Affairs* 159, no. 2 (October 1996), 65.

⁹¹ Kwame Boafo-Arthur, "Ghana: Structural Adjustment, Democratization, and the Politics of Continuity," *African Studies Review* 42, no. 2 (September 1999), 46.

⁹² Ho-Won Jeong, "Economic Reform and Democratic Transition in Ghana," *World Affairs* 160, no. 4 (April 1998), 219.

The government instituted a number of other reforms as well. It devalued the currency, removed price controls on manufacturing products, and privatized government industries.⁹³ The PNDC also implemented free trade policies as well as other traditional liberal economic reforms.⁹⁴

In return for the implementation of ERP I, the World Bank sent a significant aid package. Part of this package included an interest-free loan worth \$3.1 million for bilateral Chinese development projects—irrigation projects in the Volta region, grain depots, rice-grinding mills, a bank, a sweater mill, and several school buildings.⁹⁵

These projects were successful; Ghana was able to increase its export of agricultural crops, and it was able to improve the standard of living in all the communities where these projects were built. Development projects like these as well as those sponsored by other countries led to the success of the ERP.⁹⁶

In 1984, Ghana's GDP percent change exceeded that of the region by 5.8 percent, and over the next 28 years, Ghana outperformed the region 25 of 28 times. And for the three years when Ghana underperformed the region, the difference was negligible, each occurrence being less than one percentage point off.⁹⁷ So there is clearly a correlation between implementation of the ERP and positive GDP change.

H. 2011

From 1984 until the present, Ghana has continued its policies of economic liberalization, and the results are impressive. Between 1984 and 2011, Ghana's annual GDP growth was consistent, and, with only a few exceptions, the country outperformed

⁹³ Ibid.

⁹⁴ Ho-Won Jeong, "Liberal Economic Reform in Ghana: A Contested Political Agenda," *Africa Today* 42, no. 4 (December 1995), 82.

⁹⁵ Martyn Davies, "Case Study II, Ghana," in *How China Delivers Development Assistance to Africa* (Stellenbosch, South Africa: Centre for Chinese Studies, University of Stellenbosch, 2008).

⁹⁶ Heidi Frontani and Anna McCracken, "China's Development Initiatives in Ghana, 1961–2011," *Journal of Sustainable Development in Africa* 14, no. 8 (2012).

⁹⁷ GDP percent change is reflected in constant prices in the national currency. The World Bank, "GDP Growth," The World Bank, accessed August 9, 2013, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>.

the region. Additionally, the growth was quite stable. There were no “deviation years” during that time period, years in which the GDP change deviated from that of the region by more than 5.8 percent. Then, toward this end of this time period, in 2011, Ghana’s GDP percent change spiked considerably, hitting 15 percent, 11 percent higher than the Sub-Saharan Africa average.⁹⁸ As noted in the introduction to this study, 15 percent growth places Ghana at the very top of the list of fastest growing economies in the world.

Much of the growth for 2011 was certainly due to oil revenues from the Jubilee oil field. But, again, oil alone does not explain Ghana’s economic success in 2011. When oil revenues are excluded, Ghana’s GDP change was still 7.5 percent for 2011.⁹⁹ This still places Ghana in the top 30 percent of the world’s economies in terms of growth.¹⁰⁰ So, whether one includes oil revenues or not, Ghana’s economy is growing quite rapidly, and as with all other deviation years examined in this study, the question is why?

The oil revenue has been accounted for, so what explains the other 7.5 percent growth? Arguably, the answer is economic liberalization policies. Perhaps one of the most successful initiatives of late has been Ghana’s policy focus on strengthening the private sector. Indeed, the government now considers the private sector a partner in the development of infrastructure. Private capital is now flowing into infrastructure projects, which of course boost the economy. Other policies that have led to growth include pension reforms, stock exchange tax holidays, and incentives that encourage investment in the stock market.¹⁰¹

Other reforms include the financial sector strategic plan (FINSSP) and inflation targeting policies, both pursued by John Kufuor and the New Patriotic Party (NPP). John Atta Mills continued these policies when he and the National Democratic Congress

⁹⁸ Ibid.

⁹⁹ Ferdinand Bakoup, *Republic of Ghana Country Strategy Paper* (Accra, Ghana: African Development Bank, 2012).

¹⁰⁰ GDP percent change is reflected in constant prices in the national currency. The World Bank, “GDP Growth,” The World Bank, accessed August 9, 2013, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>.

¹⁰¹ African Development Bank, *African Economic Outlook 2012: Ghana* (Tunis, Tunisia: African Development Bank, 2012).

(NDC) took office in 2009. He implemented other liberal policies as well. These include FINSSP II, the Ghana industrial policy (GIP), and the private sector development strategy (PSDS). These policies helped to strengthen the financial sector and develop capital markets.¹⁰²

Leading up to 2011, Ghana had been consistently implementing economic liberalization policies since 1983. And while a causal relationship is difficult to establish, a correlational relationship is not. The fact is, Ghana had been pursuing liberal economic policies for almost three decades. And the result? The economy has improved consistently, and in 2011 it improved dramatically.

¹⁰² Ibid.

IV. CONCLUSION AND POLICY RECOMMENDATIONS

A. DATA REVIEW

So do economic liberalization policies lead to positive deviation years (years in which the GDP growth exceeds the region's by 5.8 percent or more)? Let us review the data.

Protectionist policies were in place from 1961 to 1966, which was a negative deviation year. The regime implemented some tentative liberal policies during 1966 and 1967, but was generally protectionist until 1975, when it experienced a negative deviation year. Protectionist policies then continued until 1979. Ghana experienced a positive GDP deviation in 1978 and a negative one in 1979. Then Limann implemented some notable steps toward liberalization from 1979 to 1981, and the country experienced a positive deviation year in 1981. Rawlings continued these liberalization policies, and the country then experienced another positive deviation in 1984. The liberalization policies have continued to the present with a notable spike in GDP growth occurring in 2011.¹⁰³

B. FINDINGS

A review of all the available data makes clear that economic liberalization policies implemented in any given year do not necessarily predict that the following year will be a positive deviation year, nor do protectionist policies necessarily predict a negative deviation year. So the implementation of protectionist policies in any given year will not necessarily *cause* a GDP spike in the following year.

In fact, there are a number of one-, two-, and three-year periods of consistent economic policies, protectionist and liberal, which did *not* immediately lead to a deviation year. Indeed, one of the deviation years, 2011, was preceded by 29 years of economic liberalization policies, and they 'did not all lead to dramatic spikes in GDP growth in the following year. In fact, only two of those years preceded acute spikes in GDP growth (1984 and 2011). So it is clear that economic liberalization policies do not

¹⁰³ See appendix.

necessarily *cause* immediate acute spikes in GDP growth. And the inverse is true as well, that protectionist policies do not *cause* immediate acute drops in GDP growth.

However, there is one important conclusion that can be inferred from the data. Every negative deviation year was preceded by protectionist policies, and, with one exception (which is easily explained),¹⁰⁴ every positive deviation year was preceded by economic liberalization policies. This relationship suggests that the nature of economic policies (liberal versus protectionist) do not necessarily *cause* large, acute GDP movement, but they may be *prerequisites* for significant GDP movement in any given year. To state this more clearly, positive GDP growth deviations of 5.8 percent or more were always preceded by years in which economic liberalization policies were in place. And negative GDP growth deviations of 5.8 percent or more were, with one easily explained exception, always preceded by years in which protectionist policies were in place.

The country has *never* experienced a GDP decline of more than 5.8 percent in any given year when economic liberalization policies were in place the prior year. This suggests that economic liberalization policies may have a preventive effect on immediate, acute GDP decline.

C. POLICY RECOMMENDATIONS

So what does this mean? Essentially, proponents of economic liberalization now have a little more support for their views. If economic liberalization policies limit immediate, acute drops in GDP, then policymakers now have one more reason to implement such policies.

If the goal is continued economic growth, then Ghana should of course continue with its current economic liberalization, but what about the rest of Sub-Saharan Africa?

¹⁰⁴ The one exception (1978) is explained by Acheampong's devaluation of the cedi. This devaluation made exports more attractive on the international market, leading to a significant increase in GDP for the year. Had this devaluation not occurred, the GDP would not have performed as well as it did. This is further explained in section III. D. of this paper.

The United States and Europe—indeed, the entire world—would like to see all countries in the region prosper. As such, policymakers should consider implementation/expansion of economic liberalization policies throughout SSA.

D. RECOMMENDATIONS FOR FUTURE STUDY

Now that each of the eight deviation years have been examined, it would be valuable to look at another dimension of this problem. Another way to parse the data would be to compare two broader time periods, specifically, 1961—1984 and 1985—present. The former was a time of great political¹⁰⁵ and economic volatility, and the latter was far more stable. In fact, seven of the eight dramatic deviation periods examined in this study occurred between 1961 and 1984. Additionally, from 1961—1984, Ghana experienced an average annual GDP growth of 1.9 percent while from 1985 to the present, the country experienced an annual GDP growth of 5.5 percent.¹⁰⁶ So it would be worthwhile to study these two time periods separately in an effort to identify the causal factors responsible for the different outcomes.

Additionally, GDP change may not be the best measure of a country's economic condition. After all, GDP is only a measure of the goods and services produced by a country during any given period of time. And GDP change is simply a measure of GDP variations from one year to the next. Unquestionably, it is an important economic measure, but there are certainly other measures that may be useful. Indeed purchasing power parity (PPP) might be a better measure of economic prosperity. Poverty rates also an important measure of a country's economic condition. As such it might be valuable to repeat this study using these two measures instead of GDP change. One could use a similar methodology in which deviation years are identified as a means of controlling for universal regional factors. Further, one could apply this same methodology to other countries in the region in order to see if outcomes are similar.

¹⁰⁵ Ghana experienced nine changes of government between 1957 and 1984.

¹⁰⁶ GDP percent change is reflected in constant prices in the national currency. The World Bank, "GDP Growth," The World Bank, accessed August 9, 2013, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>.

Indeed, there are quite a few options for further study, any of which would benefit the academic community as well as the policymakers charged with implementing economic policy for developing nations.

APPENDIX GOVERNMENTS AND ECONOMIC POLICIES

Dates	Government	Type	Economic Policies
1957-66	K. Nkrumah, Convention People's Party	Civilian	Socialist with Eastern Bloc Orientation, Inward-Looking; Protectionist; High Levels of Public Spending and Establishment of State Owned Enterprises
1966-67	A. Afrifa/E. Kotoka, National Liberation Council	Military	Renowned Socialist Orientation, Austere, Tentative Steps Toward Liberalization
1969-72	K.A. Busia, Progress Party	Civilian	Market-Oriented, Stronger Moves to Liberalization, Attempted Large Devaluation
1972-77	Gen. I. Acheampong National Redemption Council	Military	Inward Looking: Protectionist; Reversal of Busia Devaluation
1975-78	Gen. I. Acheampong Supreme Military Council I	Military	Inward Looking: Protectionist
1978-79	Gen. F.W.K. Akuffo, Supreme Military Council II	Military	Inward Looking: Protectionist
1979	Fl. Lt. Rawlings, Armed Forces Revolutionary Council	Military	Some Reforms but a General Tightening of Economic Controls
1979-81	H. Limann People's National Party	Civilian	Notable Steps Toward Liberalization
1981-92	Fl. Lt. Rawlings, Provisional National Defense Council	Military	Initially Tightening of Controls but from April 1983, Significant Economic Liberalization; SAP; ERP
1993-1997	Fl. Lt. Rawlings National Democratic Congress	Civilian	Continuation of ERP, Privatization and Divestiture
1997-2001	Fl. Lt. Rawlings National Democratic Congress	Civilian	Continuation of ERP, Privatization and Divestiture
2001-09	John Agyekum Kufuor New Patriotic Party	Civilian	FINSSP, Inflation Targeting
2009-12	John Atta Mills National Democratic Congress	Civilian	FINSSP II, GIP, PSDS, Strengthening Financial Sector, Developing Capital Markets, Partnering with Private Sector

Sources: Fosu 2000, Rose and Schneider 1992, C.K. Dorduno 1994, African Economic Outlook 2012

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